

Public finance report – MXN\$93.7bn surplus in the PSBRs during the first ten months of the year

December 1, 2017

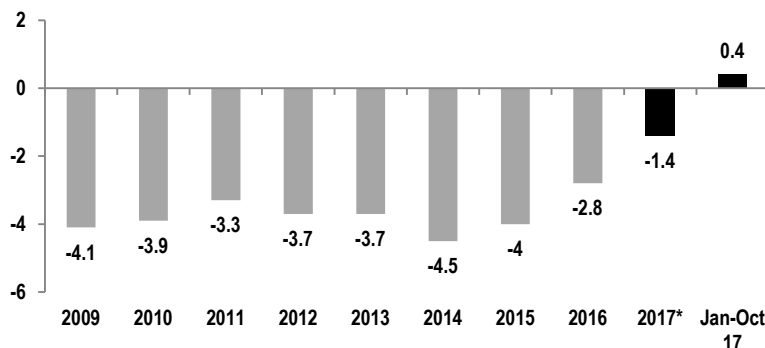
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- The Ministry of Finance (MoF) released its public finances report for the tenth month of 2017
- Public sector borrowing requirements (Jan-Oct): MXN\$93.7bn surplus (~US\$5bn)
- Public balance (Jan-Oct): MXN\$108.5bn surplus (~US\$5.7bn)
- Budget revenues increased 1.2% yoy in real terms. In addition, non-oil revenues increased 3.2% yoy, while oil revenues declined 8.2%
- Budget expenses declined by 6.3% yoy, driven by the cutbacks in administrative sector costs, which decreased 26.9% yoy in real terms
- The Historic Balance of the Public Sector Borrowing Requirements stood at MXN\$9.62 trillion (~US\$509bn) while the net public debt amounted to MXN\$9.56 trillion (~US\$506bn)

Public sector balance shows a surplus in October. The Ministry of Finance just released its public finance report for the tenth month of year, in which we highlight the surplus of MXN\$93.7bn of the *Public Sector Borrowing Requirements* (PSBR) –which is the broadest measure of the public balance¹–, standing MXN\$333bn above 2016’s balance. In addition, the “traditional” public balance posted a MXN\$108.5bn surplus, above the MXN\$222.4bn deficit seen in 2016. Furthermore, the balance was MXN\$492.6bn above the budgeted figure. Excluding the investment of high economic and social impact –such as investments made within Pemex and CFE– the balance showed a MXN\$390.1bn surplus (vs. the MXN\$201.5bn surplus observed in October 2016). In addition, the primary balance shows a MXN\$480.8 billion surplus, which implies a 344.3% yoy real growth.

Public Sector Borrowing Requirements
% of GDP



Source: Ministry of Finance; *Note: For 2017 MoF estimates are used including Banxico’s Operational Surplus

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¹ The PSBRs include the sum of the Public Balance, the financial requirements of the Mexican Bank Savings Protection Institute, financial requirements of deferred investment projects, adjustments to budget records, financial requirements of the National Infrastructure Funds, program of debtors and the expected gain or loss of development banks and development funds.

Total revenues were up 1.2% yoy. According to the MoF, revenues added to MXN\$4.2bn, MXN\$538.8bn above estimations. Taking a look at the breakdown, the 8.2% annual real decrease in oil revenues was explained by the MXN\$160.7bn transfer from the Federal Government to Pemex in 2016, which in turn raises the base of comparison. Excluding this effect, revenues were up 19.2%, as a result of the 33.7% annual increase in the price of the Mexican oil basket, despite the 9.7% decrease in oil production.

Non-oil tax revenues increased 0.7% yoy in real terms, amounting to MXN\$2.4tn, MXN\$93bn above budget. This comes on the back of a 4.6% increase in income tax collection, coupled with a 3.4% increase in VAT revenues. However, excise tax collection (IEPS) decreased by 17.5%. Excluding fuel IEPS, collection of this tax increased 5.5%. Non-oil, non-tax revenues stood at MXN\$491.2bn, which implies a 10.5% annual real growth, however it is worth mentioning that Banxico's operating surplus is accounted for in these figures. Excluding this surplus, the real annual contraction was 11.3%.

Budget spending decreased 6.3%, reaching MXN\$4.1tn, MXN\$80.6bn above what was budgeted. Primary spending –which does not include the financial cost of debt–, edged down 7.7% while the financial costs were up 9.6% yoy. Programmable spending decreased 10.6%, amounting to MXN\$3tn, mainly due to cuts in the administrative sector (-26.9% yoy), and state-owned companies (-9% yoy). Moreover, non-programmable spending, excluding the financial cost of debt, rose by 8%, given the 6.7% increase in participation to states and a 63.2% expansion in Adefas (previous government's debt).

Public Finances in October 2017

MXN bn

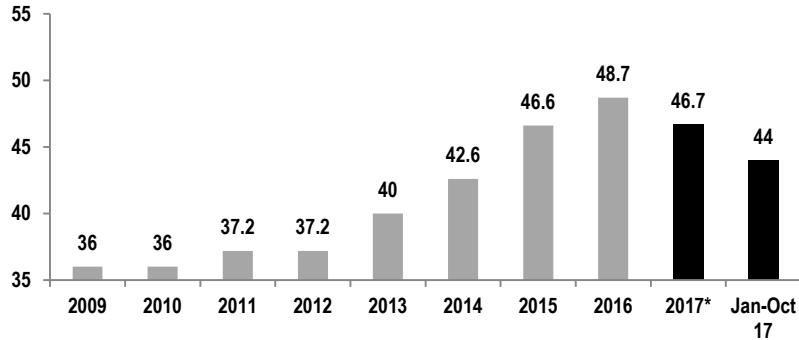
	Jan-Oct		% yoy in real terms
	2017	2016	
Balance	108.5	-222.4	
<i>ex. Pemex investments</i>	390.1	201.5	82.8
Revenues	4,150.0	3,873.5	1.2
Oil	678.5	698.2	-8.2
Non-oil	3,471.5	3,175.3	3.2
Tax collection	2,387.9	2,238.5	0.7
Other	491.2	419.6	10.5
Government controlled enterprises	592.5	517.1	8.2
Spending	4,076.1	4,109.7	-6.3
Primary spending	3,703.7	3,789.0	-7.7
Programmable spending	3,022.8	3,193.5	-10.6
Non-programmable spending	681.0	595.5	8.0
Financial costs	372.3	320.8	9.6
Primary balance	102.2	480.8	344.3

Source: Ministry of Finance

Finally, the Historic Balance of the Public Sector Borrowing Requirements (HBPSBR) stood at MXN\$9.62tn. Moreover, net domestic public sector debt amounted to MXN\$9.56tn (US\$506bn). In addition, net domestic debt reached MXN\$5.9tn, while net foreign debt climbed to US\$189.9 billion (equivalent to MXN\$3.6tn). Public debt has shown a significant growth in the last two years, as a result of the depreciation of the Mexican currency, which has caused a sharp increase in the nominal domestic value of gross foreign debt.

Historic Balance of the Public Sector Borrowing Requirements

% of GDP



Source: Ministry of Finance

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